

THE PROBLEM OF THE RUPEE: ITS ORIGIN AND ITS SOLUTION

(HISTORY OF INDIAN CURRENCY & BANKING)

CHAPTER III

THE SILVER STANDARD AND THE EVILS OF ITS INSTABILITY

The economic consequences of this rupture of the par of exchange were of the most far-reaching character. It divided the commercial world into two sharply defined groups, one using gold and the other using silver as their standard money. When so much gold was always equal to so much silver, as was the case previous to 1873, it mattered very little, for the purposes of international transactions, whether a country was on a gold or on a silver standard ; nor did it make any difference in which of the two currencies its obligations were stipulated and realised. But when, owing to the dislocation of the fixed par, it was not possible to define how much silver was equal to how much gold from year to year or even from month to month, this precision of value, the very soul of pecuniary exchange, gave place to the uncertainties of gambling. Of course, all countries were not drawn into this vortex of perplexities in the same degree and to the same extent, yet it was impossible for any country which participated in international commerce to escape from being dragged into it. This was true of India as it was of no other country. She was a silver-standard country intimately bound to a gold-standard country, so that her economic and financial life was at the mercy of blind forces operating upon the relative values of gold and silver which governed the rupee-sterling exchange.

The fall increased the burden of those who were under an obligation to make gold payments. Amongst such, the most heavily charged was the Government of India. Owing to the exigencies of its political constitution, that Government has been under the necessity of making certain payments in England to meet : (1) interest on debt and on the stock of the guaranteed railway companies ; (2) expenses on account of the European troops maintained in India; (3) pensions and non-effective allowances payable in England; (4) cost of the home administration; and (5) stores purchased in England for use or consumption in India. England being a gold-standard country, these payments were necessarily gold payments. But the revenues of the Government of India out of which these payments were met were received in silver, which was the sole legal-tender money of the country. It is evident that even if the gold payments were a fixed

quantity their burden must increase *pan passu* with the fall in the gold value of silver. But the gold payments were not a fixed quantity. They have ever been on the increase, so that the rupee cost of the gold payments grew both by reason of the growth in their magnitude, and also by reason of the contraction of the medium, i.e. the appreciation of gold, in which they were payable. How greatly this double levy diminished the revenues of India, the figures in Table XI give a convincing testimony.

TABLE XI
INCREASE IN THE RUPEE COST OF GOLD PAYMENTS

Financial Year	Average Rate of Exchange for the Year	Total Excess of Rupees needed to provide for the net Sterling Payments of the Year over those required to meet the Sterling Payments of 1874-75	Amount of this Excess due to	
			(1) Fall in the Rate of Exchange over that of 1874-75	(2) Increase in gold payments over those of the Year 1874-75
	s. d.	R	R	R
1875-76	1 9.626	86,97,980	41,13,723	45,84,257
1876-77	1 8.508	3,15,06,824	1,44,68,234	1,70,38,590
1877-78	1 8.791	1,30,05,481	1,14,58,670	1,15,46,811
1878-79	1 7.794	1,85,23,170	1,04,16,718	81,06,452
1879-80	1 7.961	39,23,570	1,65,37,394	-1,26,13,824
1880-81	1 7.956	3,12,11,981	1,92,82,582	1,19,29,399
1881-82	1 7.895	3,18,19,685	1,98,76,786	-1,19,42,899
1882-83	1 7.525	62,50,518	1,86,35,246	2,48,85,764
1883-84	1 7.536	3,44,16,685	2,33,46,040	1,10,70,645
1884-85	1 7.308	1,96,25,981	2,48,03,423	51,77,442
1885-86	1 6.254	1,82,11,346	2,54,95,337	-4,37,06,683
1886-87	1 5.441	4,69,16,788	4,46,68,299	22,48,489
1887-88	1 4.898	4,63,13,161	4,96,60,537	- 33,47,376
1888-89	1 4.379	9,00,38,166	6,59,71,998	2,40,66,168
1889-90	1 4.566	7,75,96,889	6,06,98,370	1,68,98,519

1890-91	1 6.090	9,06,11,857	4,65,48,302	4,40,63,555
1891-92	1 4.733	10,44,44,529	6,54,52,999	3,89,91,530

The effect of such a growing burden on the finance of the Government may well be imagined; the condition of the Government, embarrassing at first, later became quite desperate under this continuously increasing burden. It enforced a policy of high taxation and rigid economy in the finances of the Government. Analysing the resource side of the Indian Budgets from the year 1872-73, we find that there was hardly any year which did not expire without making an addition to the existing imposts of the country. In 1872-73, there commenced the levy of what were called Provincial Rates. The fiscal year 1875-76 witnessed the addition of R. 1 per gallon in the excise duty on spirits. In 1877-78 the Pass Duty on Malwa opium was raised from Rs. 600 to Rs. 650 per chest. An addition of a License Tax and Local Rates was made in the year 1878-79, and an increase of Rs. 50 per chest took place in the Malwa Opium Duty in the following year. With the help of these imposts the Government expected to place its finances on an adequate basis. By the end of 1882, it felt quite secure and even went so far as to remit some of the taxes, which it did by lowering the customs duties and the Patwari Cess in the North-Western Provinces. But the rapid pace in the fall of the exchange soon showed that a resort to further taxation was necessary to make up for the increased cost of the sterling payments. To the existing burdens, therefore, was added in 1886 an Income Tax, a duty of 5 per cent. on imported and also on non-illuminating petroleum. The Salt Duty was raised in 1888 in India from Rs. 2 to Rs. 2 1/2 and in Burma from 3 annas to R. 1 per maund. The Patwari Cess of the North-Western Provinces, repealed in 1882, was re-imposed in 1888. The rates of duty on imported spirit and the excise duties on spirits were not only raised in 1890, but were afterwards added to in every province. An excise duty on malt liquor was levied in 1893, and another on salted fish at the rate of 6 annas per maund. The yield of the taxes and duties levied from 1882-83 was as follows:—

Sources	1882-83	1892-93
	Rs.	Rs.
Salt	5,67,50,000	8,14,90,000
Excise	3,47,50,000	4,97,90,000
Customs	1,08,90,000	1,41,80,000
Assessed Taxes	48,40,000	1,63,60,000

All this additional burden was due to the enhanced cost of meeting the gold payments, and "would not have been necessary but for the fall in the

exchange."

Along with this increase of resources the Government of India also exercised the virtue of economy in the cost of administration. For the first time in its history, the Government turned to the alternative of employing the comparatively cheaper agency of the natives of the country in place of the imported Englishmen. Prior to 1870, the scope of effecting economy along this line was very limited. By the Civil Service Reforms of 1853 the way was cleared for the appointment of Indians to the posts reserved by the Statute of 1793 for the members of the covenanted Civil Service. But this reform did not conduce to any economy in the cost of the administration, because the Indian members carried the same high scale of salaries as did the English members of the Civil Service. It was when the Statute of 1870 (33 Vic. c. 3) was passed permitting the appointment by nomination of non-covenanted Indians to places reserved for the covenanted Civil Service on a lower scale of salary, that a real scope for economy presented itself to the Government of India. Hard pressed, the Government of India availed itself of the possibilities for economy held out by this statute. So great was the need for economy and so powerful was the interest of the Government in reducing its expenditure that it proceeded, notwithstanding increased demands for efficient administration, to substitute the less expensive agency of non-covenanted civilians in place of the more expensive agency of the covenanted civilians. The scale on which this substitution was effected was by no means small, for we find that between 1874 and 1889 the strength of the covenanted service recruited in England was reduced by more than 22 per cent., and was further expected to be reduced by about 12 per cent., by the employment of unconvenanted Indians to the posts usually reserved for covenanted civilians. Besides substituting a cheap for a dear agency in the administration, the Government also sought to obtain relief by applying the pruning knife to the rank growth in departmental extravagances. Even with such heroic efforts to increase the revenue and reduce the expenditure the finances of the Government throughout the period of the falling exchange were never in a flourishing state, as is shown in Table XII.

Much more regrettable was the inability of the Government, owing to its financial difficulties, to find money for useful public works. The welfare of the Indian people depends upon turning to best account the resources which the country possesses. But the people have had very little of the necessary spirit of enterprise in them. The task, therefore, has fallen upon the Government of India to provide the country with the two prime requisites of a sustained economic life, namely a system of transport and a network of irrigation. With this object in view the Government had inaugurated a policy of developing what were called " Extraordinary Public Works," financed by capital borrowings. For

such borrowings India, as was to be expected, hardly offered any market, the people being too poor and their savings too scanty to furnish a modicum of the required capital outlay. Like all governments of poor peoples, the Government of India had therefore to turn to wealthier countries that had surplus capital to lend. All these countries unfortunately happened to be on the gold standard. As long as it was possible to say that so much gold was equal to so much silver, the English investor was indifferent whether the securities of the Government of India were rupee securities or sterling securities. But the fall in the gold value of silver was also a fall in the gold value of the rupee securities, and what was once a secure investment ceased to be so any more. This placed the Government in a difficult position in the matter of financing its extraordinary public works. Figures in Table XIII are worth study.

The English investor would not invest in the rupee securities. An important customer for the Indian rupee securities was thus lost. The response of the Indian money market was inadequate.

TABLE XII
REVENUE AND EXPENDITURE OF THE GOVERNMENT OF INDIA

Year.	Average Rate of Exchange.	In India.			In England.		Final Result.
		Net Revenue.	Net Expenditure excluding Exchange.	Surplus Revenue.	Net Sterling Revenue.	Exchange.	
	d.	R.	R.	R.	£	R.	R.
1874-75	22.156	39,564,216	25,897,098	13,667,118	12,562,101	1,045,239	59,778
1875-76	21.626	40,053,419	24,541,923	15,511,496	12,544,813	1,377,428	1,589,255
1876-77	20.508	38,253,366	25,355,285	12,898,081	13,229,646	2,252,611	-2,584,176
1877-78	20.791	39,275,489	27,658,021	11,617,468	13,756,478	2,123,030	-4,262,040
1878-79	19.794	44,415,139	25,778,928	18,636,211	13,610,211	2,891,902	2,134,098
1879-80	19.961	45,258,197	29,384,030	15,874,167	14,223,891	2,878,169	-1,227,893
1880-81	19.956	44,691,119	34,880,434	9,810,085	11,177,231	2,264,848	-3,031,394
1881-82	19.895	45,471,887	27,717,249	17,754,638	11,737,688	2,421,499	3,595,451
1882-83	19.525	42,526,173	25,500,437	17,025,736	13,299,976	3,050,923	674,837
1883-84	19.536	43,591,273	23,566,381	20,024,892	14,770,257	3,375,158	1,879,477
1884-85	19.308	41,585,347	24,763,779	16,821,568	13,844,028	3,363,986	-386,446
1885-86	18.254	42,635,953	27,352,132	15,283,821	13,755,659	4,329,888	-2,801,726

1886-87	17.441	44,804,774	25,124,335	19,680,439	14,172,298	5,329,714	178,427
1887-88	16.898	45,424,150	25,968,025	19,456,125	15,128,018	6,356,939	-2,028,832
1888-89	16.379	46,558,354	25,051,147	21,507,207	14,652,590	6,817,599	37,018
1889-90	16.566	50,005,810	26,367,855	23,637,955	14,513,155	6,512,767	2,612,033
1890-91	18.090	49,403,819	25,579,727	23,824,092	15,176,866	4,959,055	3,688,171
1891-92	16.733	50,023,142	27,013,618	23,009,524	15,716,780	6,825,909	467,535

To issue sterling securities was the only alternative to enable the Government to tap a bigger and a more constant reservoir for the drawing of capital to India; but as it was bound to increase the burden of the gold payments, which it was the strongest interest of the Government to reduce, the resort to the London money market, unavoidable as it became, was somewhat restrained# with the result that the expansion of extraordinary public works did not proceed at a pace demanded by the needs of the country.

#During the period of falling exchange the distribution of the debt of India was as follows:—

	<i>Sterling Debt</i>	<i>Rupee Debt</i>
End of 1873-74	41,117,617	66,41,72,900
End of 1898-99	124,268,605	1,12,65,04,340

Indian Currency Committee (1898), Appendix II p. 179

The effects of this financial derangement, consequent on the fall of the exchange, were not confined to the Government, of India. They were immediately felt by the municipalities and other local bodies who were dependent upon the Government for financial aid. So long as the cash balances were overflowing in the treasury of the Government," one of the most useful ways " to employ them was found in lending a portion of them to these local institutions. As they had just then been inaugurated under the local self-government policy of Lord Ripon's regime, and were looked upon only as an experiment, their taxing and borrowing powers were rigidly limited. Consequently, this financial aid from the Central Government by way of temporary advances was a resource of inestimable value to them. When, however, the cash balances of the Central Government began to diminish owing to the continued losses by exchange, these facilities were severely curtailed, so that the very vitality of these institutions was threatened just at the moment when they needed all help to foster their growth and strengthen their foundations.

Addressing the Secretary of State, the Government of India, in a dispatch of February 2, 1886, observed —

" 10. We do not hesitate to repeat that the facts set forth in the preceding

paragraphs are, from the point of Indian interests, intolerable ; and the evils which we have enumerated do not exhaust the catalogue. Uncertainty regarding the future of silver discourages the investment of capital in India, and we find it impossible to borrow in silver except at an excessive cost.

"On the other hand, the Frontier and Famine Railways which we propose to construct, and the Coast and Frontier defences which we have planned, are imperatively required and cannot be postponed indefinitely.

TABLE XIII
PRICE MOVEMENTS OF RUPEE AND STERLING SECURITIES OF THE
GOVERNMENT OF INDIA

Year.	Rates of Exchange.		Price of 4 per cent. Rupee Paper.				Price of Sterling India Stock.					
			In Calcutta.		In London.		4 per cent.		3 1/2 per cent.		3 per cent.	
	Highest.	Lowest.	Highest.	Lowest.	Highest.	Lowest.	Highest.	Lowest.	Highest.	Lowest.	Highest.	Lowest.
	d.	d.										
1873	22 7/8	21 5/8	105	101 7/8	97	94 1/2	106 1/2	101 1/4				
1874	23 1/8	213	104 1/2	99 1/2	98	94 1/2	103 3/4	101				
1875	22 3/16	21 1/4	102 7/8	101 3/4	94	91	106 1/4	103 1/4				
1876	22 3/8	18 1/2	101 7/8	98 3/4	89 3/4	78	105 7/8	101 7/8				
1877	22 1/4	20 9/16	98 1/2	93 1/4	88 1/2	81	104 5/8	102 1/4				
1878	21	18 3/4	96 1/2	93 1/2	82 1/2	75 1/2	104 5/8	99				
1879	20 5/8	18 5/8	94 1/2	91 1/4	80	77 1/2	105 3/8	100 7/8				
1880	20 3/8	19 3/4	100	92 15/16	81 3/8	77 3/4	105 3/8	102 1/8				
1881	20 1/16	19 1/2	104 5/8	100	86	81 1/2	106 3/8	103 7/8	103 7/8	100 3/4		
1882	20 3/16	19 1/16	102 1/16	95 5/8	85	81	105 1/8	102 7/8	101 7/8	99 3/4		
1883	19 9/16	19 3/16	101 1/8	97 9/16	82	79 3/4	104 5/8	102 7/16	103 1/8	101 3/8		
1884	19 3/4	18 15/16	100 5/8	95 5/16	81 1/2	78	104 3/8	101 5/8	107 1/8	101 3/4	96 1/4	91 3/4
1885	19 3/16	17 3/3 1/2	98 7/16	92 1/2	77 1/2	73 1/4	103 1/16	98 3/4	102 3/4	97 1/2	91 1/2	85 3/4
1886	18	16 1/8	97 3/4	97 3/16	73	66 1/4	103 1/2	101 1/4	102 3/4	99 3/4	90 1/8	86 5/8
1887	18 3/16	15 5/8	99 3/16	95 5/16	71 11/16	67 7/8	102 3/4	100 1/2	103 1/4	100 1/4	92 3/4	95 3/8
1888	17 1/8	16	100 3/16	97 1/2	69 1/2	66 1/4	102 7/8	100 1/2	107 1/4	104 5/8	98	95
1889	16 15/16	16	100 3/8	97 1/16	69 1/8	66 3/8			109 1/2	106 7/8	101 1/8	99
1890	20 2/3 9/2	16 7/8	103 1/2	96 13/16	87 1/4	68 3/4			108 1/2	105 1/4	100 3/4	95 1/4
1891	18 1/4	16 5/8	107 13/16	104 1/16	80 3/4	74 1/2			109 1/2	105	99	94 7/8
1892	16 11/16	14 5/8	108 15/16	103 11/16	74 1/2	62			109 1/2	106 1/8	98 1/2	94 7/8

"We are forced, therefore, either to increase our sterling liabilities, to which course there are so many objections, or to do without the railways required for the commercial development of the country, and its protection against

invasion and the effects of famine.

" 11. Nor can the difficulties which local bodies experience in borrowing in India be overlooked. The Municipalities of Bombay and Calcutta require large sums for sanitary improvements, but the high rate of interest which they must pay for silver loans operates to deter them from undertaking expensive works, and we need hardly remind your Lordship that it has quite recently been found necessary for Government to undertake to lend the money required for the construction of docks at Calcutta and Bombay, and that when the Port Commissioners of Calcutta attempted to raise a loan of 75 lakhs of rupees in September, 1885, guaranteed by the Government of India, the total amount of tenders was only Rs. 40,200, and no portion of this insignificant amount was offered at par....."

The importation of capital on private account was hampered for similar reasons, to the great detriment of the country. It was urged on all hands, and was even recommended by a Royal Commission, that one avenue of escape from the ravages of recurring famines, to which India so pitifully succumbed at such frequent intervals, was the diversification of her industries. To be of any permanent benefit, such diversified industrial life could be based on a capitalistic basis alone. But that depended upon the flow of capital into the country as freely as the needs of the country required. As matters then stood, the English investor, the largest purveyor of capital, looked upon the investment of capital in India as a risky proposition. It was feared that once the capital was spread out in a silver country every fall in the price of silver would not only make the return uncertain when drawn in gold, but would also reduce the capital value of his investment in terms of gold, which was naturally the unit in which he measured all his returns and his outlays. This check to the free inflow of capital was undoubtedly the most serious evil arising out of the rupture of the par of exchange.

Another group of people, who suffered from the fall of exchange because of their obligation to make gold payments, was composed of the European members of the Civil Service in India. Like the Government to which they belonged, they received their salaries in silver, but had to make gold remittances in support of their families, who were often left behind in England. Before 1873, when the price of silver in terms of gold was fixed, this circumstance was of no moment to them. But as the rupee began to fall the face of the situation was completely altered. With every fall in the value of silver they had to pay more rupees out of their fixed salaries to obtain the same amount of gold. Some relief was no doubt given to them in the matter of their remittances. The Civil Servants were permitted, at a sacrifice to the

Government, to make their remittances at what was called the Official Rate of Exchange. It is true the difference between the market rate and the official rate was not very considerable. None the less, it was appreciable enough for the Civil Servants to have gained by 2 1/2 per cent. on the average of the years 1862-90 at the cost of the Government. The Military Servants obtained a similar relief to a greater degree, but in a different way. Their salary was fixed in sterling, though payable in rupees. It is true the Royal Warrant which fixed their salary also fixed the rate of exchange between the sterling and the rupee for that purpose. But as it invariably happened that the rate of exchange fixed by the Warrant was higher than the market rate, the Military Servants were compensated to the extent of the difference at the cost of the Indian Exchequer##.

##Cf. F. S. 1887-8, pp. 39-40.

This cost was as follows —

1847 -75	Rs. 6,40,000
1885 -86	Rs. 4,00,000
1884 -85	Rs. 18,43,000
1886 -87	Rs. 5,15,000

This relief was, comparatively speaking, no relief to them. The official or the warrant rates of exchange, though better than the market rates of exchange, were much lower than the rate at which they were used to make their remittances before 1873. Their burden, like that of the Government, grew with the fall of silver, and as their burden increased their attitude became alarmist. Many were the memorialists who demanded from the Government adequate compensation for their losses on exchange. The Government was warned that

"the ignorant folk who think India would be benefited by lowering present salaries are seemingly unable to comprehend that such a step would render existence on this reduced pay simply impossible, and that recourse would of necessity be had to other methods of raising money."

Such, no doubt, was the case in the earlier days of the East India Company, when the Civil Servants fattened on pickings because their pay was small, and it was to put a stop to their extortion's that their salaries were raised to what appears an extra-ordinary level. That such former instances of extortion's should have been held out as monitions showed too well how discontented the Civil Service was owing to its losses through exchange.

Quite a different effect the fall had on the trade and industry of the country. It was in a flourishing state as compared with the affairs of the Government or with the trade and industry of a gold-standard country like England. Throughout the period of falling silver there was said to be a progressive decline relatively to population in the employment afforded by various trades and industries in

England. The textile manufactures and the iron and coal trade were depressed as well as the other important trades, including the hardware manufactures of Birmingham and Sheffield, the sugar-refining of Greenock, Liverpool, and London, the manufactures of earthenware, glass, leather, paper, and a multitude of minor industries. The depression in English agriculture was so widespread that the Commissioners of 1892 were "unable to point to any part of the country in which [the effects of the depression] can be said to be entirely absent," and this notwithstanding the fact that the seasons since 1882 "were on the whole satisfactory from an agricultural point of view." Just the reverse was the case with Indian trade and industry. The foreign trade of the country, which had bounced up during the American Civil War, showed greater buoyancy after 1870, and continued to grow throughout the period of the falling exchange at a rapid pace. During the short space of twenty years the total imports and exports of the country more than doubled in their magnitude, as is shown by Table XIV.

TABLE XIV

IMPORTS AND EXPORTS (BOTH MERCHANDIZE AND TREASURE)

Year	Exports R.	Imports	Year	Exports R.
1870-71	57,556,951	39,913,942	1881-82	83,068,198
1871-72	64,685,376	43,665,663	1882-83	84,527,182
1872-73	56,548,842	36,431,210	1883-84	89,186,397
1873-74	56,910,081	39,612,362	1884-85	85,225,922
1874-75	57,984,549	44,363,160	1885-86	84,989,502
1875-76	60,291,731	44,192,378	1886-87	90,190,633
1876-87	65,043,789	48,876,751	1887-88	92,148,279
1877-78	67,433,324	58,819,644	1888-89	98,833,879
1878-79	64,919,741	44,857,343	1889-90	105,366,720
1879-80	69,247,511	52,821,398	1890-91	102,350,526
1880-81	76,021,043	62,104,984	1891-92	111,460,278

TABLE XV.
NATURE OF INDUSTRIAL
PURSUITS IN ENGLAND AND
INDIA

	Distribution of <i>Indian</i> Exports exclusive of Treasure.					Distribution of <i>English</i> Exports exclusive of Treasure.				
	Manufactured Articles.	Raw Materials.	Food Articles	Unclassified Articles	Total.	Manufactured Articles.	Raw Materials.	Food Articles	Unclassified Articles.	Total.
1857	11	34	22	23	100	90.9	4	4.9	.2	100
1858	6	35	26	33	100	91.4	3.4	5.1	.1	100
1859	6.5	40	15.5	38	100	91.5	3.8	4.6	.1	100

1860	5.7	43.6	17.7	33	100	91.9	3.6	4.4	.3	100
1861	5.8	46.5	15.3	32.4	100	90.4	4.8	4.8	—	100
1862	5	52	16	27	100	90.3	4	4.8	.9	100
1863	3.7	58.7	10.6	27	100	91.0	4	4	1.0	100
1864	4	69.2	9.3	17.5	100	92.5	3.7	3.7	.1	100
1865	3.5	68	12	16.6	100	92.1	3.6	3.6	.7	100
1866	4.2	67.2	10.3	18.3	100	92	3.7	3.7	.4	100
1867	4	58	11	27	100	92.2	3.8	3.7	.3	100
1868	4	58.5	11.5	26	100	92	4.4	3.4	.2	100
1869	4.8	60.5	14	20.7	100	92	4.2	3.1	.7	100
1870	4.4	63.6	9	23	100	91	4	4	1.0	100
1871	3.7	65.3	11	20	100	90	4.4	4.9	.7	100
1872	3.3	61.4	13.5	21.8	100	91.2	5.4	3.5	.9	100

TABLE XVI
CHANGES IN INDUSTRIAL PURSUITS OF INDIA

Years	Imports		Exports	
	Manufactured	Raw	Manufactured	Raw
	Rs.	Rs.	Rs.	Rs.
1879	25,98,65,827	13,75,55,837	5,27,80,340	59,67,27,991
1892	36,22,31,872	26,38,18,431	16,42,47,566	85,52,09,499
Percentage of increase	39	91	211	43
Total Annual	2.8	6.5	15	3

Not only had the trade of India been increasing, but the nature of her industries was also at the same time undergoing a profound change. Prior to 1870, India and England were, so to say, non-competing groups. Owing to the protectionist policy of the Navigation Laws, and owing also to the substitution of man by machinery in the field of production, India had become exclusively an agricultural and a raw-material-producing country, while England had transformed herself into a country which devoted all her energy and her resources to the manufacturing of raw materials imported from abroad into finished goods. How marked was the contrast in the industrial pursuits in the two countries is well revealed by the analysis of their respective exports in Table XV.

After 1870, the distribution of their industrial pursuits was greatly altered, and India once again began to assume the role of a manufacturing country.

Analyzing the figures for Indian imports and exports for the twenty years succeeding 1870, (see *Table XVI*) we find that the progress in the direction of manufactures formed one of the most significant features of the period.

This change in the industrial evolution was marked by the growth of two principal manufactures. One of them was the manufacture of cotton. The cotton industry was one of the oldest industries of India, but during 100 years between 1750 and 1850 it had fallen into a complete state of decrepitude. Attempts were made to resuscitate the industry on a capitalistic basis in the sixties of the nineteenth century and soon showed signs of rapid advance. The story of its progress is graphically illustrated in the following summary in *Table XVII* :—

TABLE XVII
THE DEVELOPMENT OF INDIA COTTON TRADE AND INDUSTRY

	Growth of Trade (Average Annual Quantities in each Quinquennium)				
	1870-71 to 1874-75	1875-76 to 1879-80	1880-81 to 1884-85	1885-86 to 1889-90	1890-91 to 1894-95
Imports of raw cotton— thousands of cwts.	23	52	51	74	89
Imports of raw cotton— thousands of cwts.	5236	3988	5477	5330	4660
Imports of twist and yarn	33.55	33.55	44.34	49.09	44.79
	Growth of Industry (at end of each fifth year)				
Number of mills	48	58	81	114	143
Number of spindles—000— omitted	1,000	1,471	2,037	2,935	3,712
Number of looms—000— omitted	10	13	16	22	34
Number of persons employed		39,537	61,836	99,224	

Another industry which figured largely in this expansion of Indian manufactures was jute. Unlike the cotton industry of India, the jute industry was of a comparatively recent origin. Its growth, different from that of the cotton industry, was fostered by the application of European capital, European management, and European skill, and it soon took as deep roots as the cotton industry and flourished as well as the latter did, if not better. Its history was one

of continued progress as will be seen from Table XVIII.

This increasing trend towards manufactures was not without its indirect effects on the course of Indian agriculture. Prior to 1870 the Indian farmer, it may be said, had no commercial outlook. He cultivated not so much for profit as for individual self-sufficiency. After 1870 farming tended to become a business and crops came more and more to be determined by the course of market prices than by the household needs of the farmer. This is well illustrated by figures in Table XIX.

Such was the contrast in the economic conditions prevalent in the two countries. This peculiar phenomenon of a silver-standard country steadily progressing, and a gold-standard country tending to a standstill, exercised the minds of many of its observers.

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